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[REDACTED]

[REDACTED]

NOV 03 1983

CERTIFIED MAIL

Gentlemen:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The information submitted indicated that you were incorporated on [REDACTED] under the laws of the State of [REDACTED].

Your stated primary purpose is to promote brotherhood and sociability among members, to hold and conduct social meetings, excursions, and entertainment for members, and to promote the welfare of members morally, educationally and fraternally.

Your activities include conducting fund-raising events such as dances and raffles, and participation in van meetings and conventions.

Income is from your dances, raffles, and member dues. Expenses are for the fund-raising activities, contributions, rent, gifts for members, trophies to other clubs, and club items for members.

For the period ending [REDACTED], you show that you received [REDACTED] % of your income from non-members from your fund-raising events. Part of the net profit from these activities was used for the operating expenses of the club and for club items to benefit the members only. You state that you intend to continue sponsoring similar fund-raising events in the future. You also state that these activities will enable the club to establish a permanent facility and support your operating expenses.

Section 501(c)(7) of the Internal Revenue Code exempts from Federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Revenue Procedures 71-17, published in Internal Revenue Cumulative Bulletin 1971-1, page 683, indicated that, as an audit standard, a social club's annual income from outside sources should not be more than 5% of the total gross receipts of the organization.

Public Law 94-568 liberalized this standard. The intent of this law, as explained in Senate Report No. 94-1318, published in Cumulative Bulletin 1976-2, page 597, is that a club exempt from taxation and described in section 501(c)(7) is to be permitted to receive up to 35% of its gross receipts from a combination of investment income and receipts from nonmembers (from the use of its facilities or services) so long as the latter do not represent more than 15 percent of the total receipts. It is further stated that if an organization exceeds these limits, all of the facts and circumstances must be considered in determining whether the organization qualifies for exempt status.

Revenue Ruling 68-119, published in Cumulative Bulletin 1968-1, page 268, holds that a club will not necessarily lose its exempt status if it derives income from other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes and the income therefrom does not inure to members. The equestrian club considered in this ruling held an annual steeplechase which was open to the general public. Prize money was paid from entry fees paid by participants, and general expenses of the meet were paid from admissions and sale of programs and refreshments. The club distributed any net proceeds from the meet to charity. Therefore, it was held the meet was not operated to make a profit, and the income from non-members did not inure to the benefit of members. The club's exemption was not jeopardized by non-member participation in its annual meet.

You have exceeded the permitted level of income from non-members. Net profits were used to benefit members. Therefore, the facts and circumstances show that net earnings have inured to the membership.

You are therefore not qualified for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code.

Based on the information submitted, exempt status will not be recognized under any related paragraph of the Internal Revenue Code section 501(c).

Until you have established an exempt status, you are not relieved of the requirements for filing Federal income tax returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient

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District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]  
District Director

Attachments